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Wood, John

Money-panics

London

1874

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MONEY-PANICS:

THEIR

CAUSE AND PREVENTION.

BY

JOHN WOOD.

"The life-blood of a nation's industry and commerce is its circulating medium; the healthful current of which it is in the nature of a money-panic arbitrarily to impair and interrupt." —

LONDON:

EDWARD STANFORD, 6, 7, AND 8, CHARING CROSS.

1874.

With the author's compl.ts

MONEY-PANICS:

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1874.

TO THE RIGHT HON.

BENJAMIN DISRAELI, M.P.

&c., &c., &c.

RIGHT HON. SIR,

A keen observer of our financial history, you may already have been led to conclude that there must exist *somewhere* in our Monetary System a grave and fundamental defect.

That defect,—an ever-recurring public grievance with each renewed drain of bullion,—I have humbly endeavoured to point out, together with the nature of the remedy required, to harmonise with our previous legislation.

You are, doubtless, well entitled to the honour of taking up and finally disposing of this vexed question; and, doubtless, a Government which should effect a reform so important, would thereby, I conceive, earn for itself an amount of national gratitude which would constitute its highest official distinction, and most acceptable public guerdon.

The Country has, at length, placed in your hands the necessary political power; besides which, I believe that, beyond the majority even of distinguished statesmen, a thorough acquaintance with the laws of Political Economy pre-eminently qualifies you to deal with the subject, ably and satisfactorily to the Nation.

I have, therefore, (without permission) presumed to dedicate to yourself the following pages.

I have the honor to remain,

Right Hon. Sir,

Your obedient, humble Servant,

THE AUTHOR.

March, 1874.

MONEY-PANICS:

THEIR

CAUSE AND PREVENTION.

The fiscal Surplus.

Mr. Disraeli's former accession to the Premiership was unhappily coincident with a great national calamity—the commercial distress produced by the Money-panic of 1866.

Mr. Gladstone's subsequent official reign, commencing at the moment of incipient recovery, was contemporary with a period, for the most part, exempt from this repressive incubus, and with several following years of reviving commercial and industrial prosperity; the necessary effect of which is to develope and expand every source of Public Revenue. Hence, mainly, the present fiscal surplus.

Singular Proposition of Government.

The late Government of Mr. Gladstone, however, recognised the perpetual imminence of these distressing Money-panics; when the Chancellor of the Exchequer recently made to the House the extraordinary proposition to invest the Government *permanently* with power to violate or suspend, at their discretion, an Act of Parliament!

This great question was, notwithstanding, finally passed over without action of any kind. It may be

presumed that Mr. Disraeli, now for the first time invested with political *power*, may, in this respect, afford a more worthy example; by not merely recognising the constant menace of so formidable a calamity; but also by adopting some adequate future preventive.

The suggestion of such a preventive will now occupy us in the following pages.

A Money-panic defined.

In the first place, let us define what we mean by a *Money-Panic*.

A Money-panic may be described as a general alarm, generated by some actual or threatened withdrawal and contraction of the indispensable circulating medium of commerce, from whatever cause this may spring.

A *Commercial* panic, as well as what is denominated *Overtrading*, is something essentially different in nature, and is local and restricted in extent. A Money-panic, on the contrary, is national and universal, reaching to every interest dependant on a given supply of money, which has thereby been arbitrarily withdrawn from its wonted sphere of employment and usefulness.

To realise the essential distinction existing between a *Commercial* panic and a *Money*-panic, it is only necessary to consider the self-evident fact, that, at the *present*, or at *any* moment, or under *any circumstances*, the simple *reduction* in the *Reserve Notes*, in the Banking Department, to below a *single*

million sterling, must inevitably, and at the same moment, create a Money-panic of the most formidable proportions! Such is indeed the intimate relation of the Bank Reserve to this result: and the result would be precisely similar, even although it should be impossible to prefer against the commercial community any charge whatever of concurrent overtrading. Overtrading may partially aggravate the evil, but it could not possibly produce anything so universally disastrous as a Money-panic.

The permanent maintenance, in the Banking Department, of the needful amount of these *Reserve Notes*, is, therefore, the grand object to be kept in view: this full Bank Reserve, under our present monetary system, being the only possible provision for, and preventive of the evil deprecated.

Frequent suspension of the Bank Act.

The fact, then, that a Money-panic is a most formidable social evil: and the further fact, that a suspension of the Bank Act of 1844 has alone served hitherto to mitigate or remedy it, are beyond dispute. Of this, indeed, the recent history of such financial crises affords abundant and conclusive evidence.

It may, also, perhaps be conceded, that to the people of a great Empire, boasting of a position in the very van of civil legislation, it should be equally humiliating and *infra dig.* to confess itself *incapable* of framing any antidote to an ever-impending national calamity, save the scandalous expedient now resorted to as matter of course, namely, the fla-

grant, but imperative, violation of *law*, and that, indeed, by the Government itself!

The evil, doubtless, is acknowledged; and remedies of every variety have been prescribed, from differing points of view. From these varieties we have made selection of *one;* which seemed to present a *common* platform, such as might possibly reconcile and satisfy controversialists of the highest authority on this vital question. And, under this impression, our suggestions are now respectfully submitted.

Cause of Money-panic.

Of the Money-medium of our commerce, the Bank of England is the largest Issuer in this country. The present paper Issues of that institution—based *first* on Public Securities, and, secondly, on Bullion—are, in round figures, some £37,000,000. Of this amount £25,000,000 constitutes the active *Circulation;* the difference, or £12,000,000, being the amount of the *Reserve Notes* remaining in the Banking Department.*

This last amount, therefore, constitutes the total *unemployed* and available money *surplus* of the country: for, in this single institution are concentrated the aggregate *money* Reserves of the Banks, Capitalists, Merchants, and Traders throughout the country.

Now, it may be observed, that it is simply the *rise* or *fall* in the quantity of this unemployed Reserve in the Bank which regulates for the country

* *Vide* Bank Statement, February 19th, 1874.

the commercial value of money; as it is, also, the *reduction* of this Bank Reserve to its *minimum* quantity by a drain of bullion, which becomes an inevitable cause of the ensuing general scarcity and dearness of money; and of that national alarm on the subject which is properly designated a Money-panic.

This was eminently the case in the years 1847, 1857, and 1866; when, in deference to an acknowledged public necessity, the Bank Act of 1844 was, by a Government mandate, suspended; and permission given to the Bank to augment the amount of these Reserve notes by fresh issues, *independently* of any bullion basis whatever: which the Act of 1844 had specially made indispensable.

Nature of the required Preventive.

The prevention of such Money-panics then, in this country, involves simply the question as to the *means* by which these Reserve Notes in the Banking Department may be maintained in adequate supply during an exhausting drain of bullion; and, also, as to the necessary measures by which, notwithstanding, the Bank Act of 1844 may, under all circumstances, be preserved intact, for securing its main object—the protection of the Bank Note from inconvertibility.

Such means of prevention, we submit, are now abundantly at hand.

Of *Gold*, it will be remembered, the present Australian and Californian sources of supply were unknown to the world in 1844. These new and

rich sources alone have, since 1850, yielded us some 500 millions, or so much as 20 to 25 millions sterling annually!

What was probably impracticable when Sir Robert Peel's Act was inaugurated, is, therefore, no longer so.

Proposed Substitution of *Gold* for Securities.

We only propose, then, what is perfectly feasible, when we urge that 15 millions of additional *Gold*, be *substituted* at the Bank for its present *Dead Weight*: that is, for the Public Securities of the same value, constituted, by the Act of 1844, the first basis of the Bank's Issues.

As further evidence of what may be practicable in this way, it should be noticed, that the Bank has voluntarily raised already to some 25 millions its maximum store of bullion; which, prior to 1850, had not exceeded some 15 millions. The addition to this treasure so made already is, therefore, as much as 10 millions. This augmentation, moreover, was found in an eminent degree to have mitigated the effects of the recent German drain from the Bank.

But, if not otherwise to be accomplished, the issue, by the Government, of an additional 15 millions of *Consols*, would at once effect the object in view, by enabling the Bank, with the proceeds of the sale of this stock, to purchase gradually in the market the required amount of bullion. This issue of Consols would entail no *loss* whatever on the country, because the equivalent amount, in bullion, would always remain in Bank to represent so much

stock; while the interest-*profit* on the Bank Note issues, to be based thereupon, at the average interest rate during a year, would more than recoup the national Exchequer in the amount of the 3 per cent. Dividend, payable on the new Consols issued for this object. At the same time, the expenses of the paper issues would be many times recouped, by an increased productiveness of the Revenue in all its branches, through whatever should avert the repressive effects of a Money-panic, upon the prosperity and consumptive resources of the country.

This arrangement would necessarily, however, denude the *Bank* of its entire present profit on these *paper issues*; but, in lieu thereof, the Bank may be more appropriately compensated for its services to the public by some other equally satisfactory mode of emolument, to be henceforth more properly made a charge upon the Public Revenue. The importance of this consideration—namely, the *Bank's* pecuniary advantage—is quite secondary, however, to the great *national* object contemplated by the proposed modification.

Let the Dead Weight, &c., therefore, no longer be continued as a *first* basis of Issues; but let it be constituted the *last*, and a merely *contingent*, basis; to be employed, as such, *only* during the exigency of a drain of bullion.

Effect of such Substitution.

The effect of this reversed position of the Dead Weight would be this: The total normal Issue of

Notes (at present 37 millions) would thenceforth be based exclusively on *bullion*.

A future drain, as heretofore, of a portion of such bullion from the Bank, would, of course, as now, reduce proportionally the Issues, as well as the Reserve Notes in the Banking Department; while the Bank would, as now, advance *pari passu* the rate of discount, let us say, to 5 per cent But, at this point, the Dead Weight, under the proposed arrangement, would again be brought into play: The Bank would then issue its Notes upon these Government Securities, million for million; to replace thereby the Bank's Reserve Notes, which, under the Act of 1844, the drain of bullion had extinguished. By this process the great object would be attained—the amount of these Reserve Notes being thereby permanently reinforced at the Bank.

Thus, both the *Bullion* basis of the Issues, and an adequate circulating medium in the country would be amply guaranteed: the former, by its greater volume, affording increased security for the convertibility of the Bank Note; and the latter, no longer arbitrarily curtailed in supply, would yield to the public, uninterruptedly, an ample amount of the essential money-medium of its commerce.

Imparts elasticity to the Monetary System.

This *elastic* monetary Reserve would also, during any financial exigency, obviate the present necessity laid upon the Bank, to resort to oppressively high rates of interest; with the object of thereby

attracting foreign imports of gold; the purpose of which high interest rates would now be better served by an elastic and permanent monetary provision at the *Bank*, at *all* times within reach.

The Foreign Exchanges.

On this great and novel advantage to our financial system, it may be here remarked, that it is necessarily upon the *favorable balance* of the Commercial Exchanges that our foreign importations of the precious metals mainly depend. If this balance be in favor of England, it is inevitable that these must come to us, as the payment of a debt due. Such favorable condition of these Exchanges, is, indeed, their normal state towards this country, which is so largely a creditor to most others; and this favorable state of the Exchanges, it may be observed, is only accidentally and very temporarily interrupted. Otherwise, that is, when the foreign balance ceases to be in our favor, it must be obvious that no mere advance of the rate of interest can make it so.

Whether interest be *high* or *low*, the *due reflux* of gold, after any accidental and temporary pause in the import, is a matter of absolute *certainty;* and to bridge over, by a sufficient Money Reserve in hand at the Bank, the brief intervening period, until bullion shall naturally so return again, is, doubtless, for a great commercial country, a more humane and effective process than the theoretically prescribed resort to oppressive rates of interest for the same object.

It need not be denied that a reflux of specie has generally followed a Money-panic and an advanced rate of interest. An analysis of this reflux will, however, show how little of it can possibly be due to the latter cause. Deduct in the first place, that portion of it known to have been actually shipped *prior* to such advance of interest; the portion which, without reference to the value of money, inevitably arrives in the perennial stream; the portion called home by anxious merchants to maintain their necessary domestic resources; together with the much larger portion withdrawn from the provincial *circulation*—the balance thus left to be attracted by any other influence is necessarily insignificant, probably not one *twentieth* part of the total imports.

To a philanthropic mind this large reflux of coin from domestic circulation must present a spectacle of the very saddest description. For, whence does it come? It, in fact, represents various *closed industries* with corresponding *masses* of the population *deprived*, in consequence, of the *means of subsistence!*—industries, which the insupportable rate of interest, the ruinous depreciation of productions, and the universal discredit incident to a Money-panic, have rendered unprofitable; which have, by these means, been extinguished; and of which *this* portion of the circulation was recently as the life blood.

Our *Usury Laws* were repealed on the theory, that whenever the Foreign Exchanges should afterwards become unfavorable, it would only be necessary to advance indefinitely the rate of interest, and by so attracting fresh imports of bullion, avert an impending monetary crisis. It is of course historically *certain* that, on the three grand occasions when this theory was since brought to the *test*,—if it did not seriously *aggravate*—it certainly, on every trial, failed utterly to *avert* a Money-panic!

And during the recent alarming drain for Germany, may we not appeal with confidence to the unbiassed reader, to decide whether the menaced danger was really averted by the advanced rate of interest; or by the previous large augmentation of bullion in the Bank enabling the drain to be met without inconvenience; and whether this experiment—the only one of the kind ever before tried—do not conclusively point to the *only possible* form of antidote to such a financial crisis?

Efficacy of suggested Plan.

It may not, of course, be difficult further to conceive that, in some period of the country's distant future, when the natural growth of its population and commerce may reach possibly to double their present amount, an adverse balance of the Foreign Exchanges, in those times, would also be proportionally of larger volume, and render necessary an equally increased provision against it. The principle of the proposed modification would, however, even in that case, be easily applicable: since all that would be required to meet such exigency

would be some *further* gradual augmentation, in the way described, of the Bank's bullion basis, at the one end; and of the national securities, at the other, for the proposed contingent basis. Indeed, the process suggested must, in this way, readily adapt itself to all possible financial circumstances of the country.

It will not probably have been forgotten, that in 1847 a foreign drain had reduced the Bank's total stock of bullion to the low point of some 7 millions only; and that the Reserve Notes in the Banking Department, had then, consequently, fallen below 1 million sterling!

Under the proposed modification, it will be evident, that a drain of even so much as 15 millions, could not reduce the Bank's stock of bullion below the large amount of 22 millions; and this without diminishing *at all* the amount of Reserve Notes in the Banking Department.

Such beneficial control over the effects of a *Drain* would, therefore, appear to be the great remedial desideratum demanded for our financial system. A very simple Rider, also, upon the Bank Act of 1844, without in any way weakening the force of that measure, we have seen, would at once secure for our expansive commerce this great national boon. The effect, likewise, upon the Act itself, would be to ensure for it at the same time a perfect *immunity* in future from those periodical and undignified abrogations to which it is now inevitably liable.

Mode of its Operation.

This contingent and temporary basis—the Bank's Dead Weight—when it had so served its purpose during a drain, would gradually be withdrawn again, on the reflux into the Bank of its customary full store of bullion.

The use of this Dead Weight security, in this manner, to correct the otherwise disastrous effects of a *drain;* and its disuse again when no longer required for that important function, would necessarily constitute it that sort of financial *safety-valve*, so long found to be essential to the steady working of our monetary system; and would also afford the equally needful *elasticity* in the indispensable Money-medium of commerce; adjusting the latter to our ever-varying circumstances:—alike to the normal condition of national prosperity, and also to those more anomalous periods of great financial exigency.

Now, it may be observed, that, merely to *add* the proposed 15 millions to the Bank's bullion basis, *without* withdrawing from the Issue Department the present Government Securities, would necessarily have quite an opposite effect to that designed: It would merely increase, by 15 millions, the Reserve Notes in the Banking Department, and so tend only to lower indefinitely, through such greatly augmented Reserve, the Bank's rate of discount, and the general value of money. This would simply, therefore, produce a grave evil in the opposite extreme.

But, to *withdraw*, *first*, from the Issue Department this *public Debt*, and merely *supply its place* with the proposed additional 15 millions of bullion, would, by such process, add nothing whatever to the amount of Reserve Notes held by the Bank at the time; nor would it, consequently, affect in any degree the value of money. Were this proposed substitution of *Gold* to be made, for instance, *to-day*, the Bank's Issues and its Reserve Notes, as affected thereby, would still remain identically the same as they now are, or as they had been prior to such substitution.

Satisfactory to Bullionists.

This suggested modification of our money-system, therefore, by giving the fullest possible operation and effect to the Bank Act of 1844, through an enlargement of the Bank's *bullion* basis, would afford thereby so much *additional* security for the convertibility of its Notes; and, in this point of view, should be, on the one hand, acceptable to the entire school of Bullionists, and the influential upholders of the Bank Act of 1844.

And to the Public.

On the other hand, the suggested modification would furnish,—what the Bank Act of 1844 had unfortunately overlooked, and made no provision whatever for,—namely, the requisite supply of Bank Notes during the exhausting process of a drain of bullion. The proposed modification should again, therefore, in this important aspect also,—by filling up so serious a gap in the provisions of that Act,—

be equally acceptable to the public at large,—for whose signal advantage a potential *panacea* should apparently thus be provided—against the ruinous commercial losses, the disastrous contraction of the national industry, the widespread individual distress over a large proportion of the population, and against all those manifold evils incident to, and inseparable from a severe Money-panic.

Bank of England's remuneration also secured.

With regard to the nature of the remuneration which the nation has heretofore accorded to the *Bank of England*, it may doubtless be well considered as a *mistake* in the provisions of the Bank Act of 1844, to have secured to the Bank the entire *interest*-profit, often at a very high rate, upon its issues based on public securities: inasmuch as this kind of emolument obviously places the interests of that institution in direct antagonism to the weightier interests of the country: whose industrial prosperity, on the contrary, depends rather upon a *moderate* and equable value of money.

Proposal consistent with Bankers' interests.

We do not presume to say that the Bank has at any time abused this privilege, by fostering a Money-panic merely for its own advantage,—although a Money-panic, through an extreme rate of discount, must necessarily bring to the Bank its chief golden harvest; nor is it for a moment to be supposed, that our wealthy Bankers, as a body, would, in the same way, desire temporarily to enhance the profits of their business, by means of an

arbitrary contraction of the circulating medium, which must necessarily inflict so much permanent injury upon the entire commercial and industrial community. Sound policy, and the ordinary dictates of humanity, would alike revolt against such an idea.*

* The *Bankers' Magazine*, for November, 1847, records that a deputation of merchants presented to the Minister of the day, during the Money-panic of that year, a memorial which stated:—"Your Lordship may depend on us when we assure you, that if the present pressure be not relieved (soon afterwards relieved by the suspension of the Bank Act of 1844), merchants and other traders of undoubted respectability, who are not only solvent, but rich, and who have merchandise and bills which, under ordinary circumstances, would afford easy and ample means of meeting engagements, will inevitably be compelled to stop payment."

During the crisis of 1847, the Reserve Notes having become reduced even below £1,000,000, the Bank was to such a degree straitened thereby in her ways and means, that, besides being compelled to refuse further discounts to the public, she was obliged in addition to draw in as much as was in her power to do so, even the external Bank Note circulation; by selling, with that object, her securities, in order to obtain possession of these notes from the hands of the public; and this was done at the very juncture when the necessities of the latter compelled the public also to contend fiercely for the possession and use of this fully employed and essential money of the country.

A witness before the Parliamentary Committee appointed to enquire into this general distress, stated, as further evidence of its severity, that a *Bill of Exchange* of the highest possible class, bearing the endorsation of the *Bank of France*, had been refused discount at the Bank of England. It is a circumstance also well known that, after a considerable advance had just been made in the Bank rate, several Liverpool Bankers, who applied to the Bank to ascertain for their government in dealing with their customers, whether they might thereafter *rely* on the Bank of England's discounts being continued, were by the Bank refused the necessary assuring information on this point, although of such vital interest, not only to Bankers, but to the commercial community generally.

The London Clearing House Returns, again, averaging weekly upwards of 100 millions sterling, afford evidence that there must at all times be in circulation in this country some 1000 *millions* sterling, of these Bills of Exchange, the holders and acceptors of which are alike imperilled, and more or less reduced to straits by this arbitrary and unlooked for refusal of the ordinary amount of discounts by the Bank of England.

Again, the *Economist*, of 1st April, 1848, referring to the general distress of that period, states that, "At a meeting, on the previous 27th March, of the Delegates of the various *Trades* of the *Metropolis*, the Report of the Committee was read, the purport of which was, that there were about 200,000 artizans and mechanics in the Metropolis; that *one third* of them were employed, but about one half the number had not remunerating wages; that another *third* were only occasionally employed; and that the remaining *third* were totally dependant on parochial relief.

Unobjectional on the score of Expense.

It seems impossible, therefore, on this aspect of the case, that any comparatively moderate expense, be its amount what it may, should be deemed an objection to the proposed amelioration, by those who have fully weighed and estimated the immense pecuniary loss the country must always sustain through the operation of a protracted Money-panic—such as those memorable calamities of the years 1847, 1857, and 1866: losses caused by the universal depreciation of property, and by the extensive failure of employment and income to the population at large; involving necessarily therewith a proportionate diminution also of the Public Revenue, through the general inability of the masses, in those hard times, to consume, as is their usual wont, the commodities yielding it.

Historical Notices of the Subject.

Sir Robert Peel, doubtless, exhibited exemplary prudence, when,—not without an abundant treasure in the Bank, and everything serene and satisfactory in the aspect of the Money Market,—he introduced into Parliament, in 1844, his great financial measure. Yet, so soon thereafter as 1847,—in deference to a grievous public necessity, created by a reversed condition (not anticipated apparently by Sir Robert) of the Bank and of the Money Market,—he was

This sad condition of the working population in London, is only a sample of the privation and suffering then everywhere prevalent, through the almost universal reduction in the scale of employment and wages, incident to the then recent financial crisis of 1847.

The nation again passed through a similar ordeal of this financial and social distress, in the years 1857 and 1866.

constrained to become a consenting party to the suspension of the same Act.

This Act has been *twice* suspended since, under like circumstances attending a drain of bullion, in the eventful years 1857 and 1866.

And so recently as last year, under the menace and apprehension of a similar visitation, the late Ministry, as we have before observed, was induced to propose to Parliament that the Government should be *permanently* invested with power, in any future crisis of the kind, at their discretion, to suspend again the Act in question!

This historical experience of the untoward bearing of the Bank Act of 1844,—its repeated abrogation becoming thus imperative during a financial crisis,—points directly to the salient defect in its provisions; and to this grave defect the foregoing suggestions have been addressed, to find, if possible, a satisfactory remedy.

With this financial history before us, it is, of course, superfluous to deny the weighty public necessity for some remedial legislative measures: a great national exigency, no less than the impaired dignity of British legislation, seems to demand their application at the earliest possible moment.

The present juncture opportune.

The present opportunity would appear in every way the most favorable for the introduction of such an amelioration of our money-system: when, with, again, an abundant treasure at the Bank, and a

tranquil state of the Money-market, the discussion and modification necessary may be entered upon with equal confidence and security.

Doubtless, were the present Government to take adequate interest in, and devote sufficient attention to this great question of our time, to enable them to realise its grave national importance,—as being one that most vitally touches the very foundations of our commerce and industry, and one also which chiefly controls the productiveness of every branch of the Public Revenue; the subject, doubtless, would at once be ranked by them amongst those urgent topics, which, above others of the more brilliant or heroic stamp, are supposed to require, from a Conservative Ministry, their earliest and best consideration.

Authorities proper to be consulted.

It must be observed however that, in dealing with this national question,—which affects the material condition of the entire community,—nothing, perhaps, would be more unfortunate for the issue, than for the Government, following former precedent and practice, to take counsel only of eminent authorities amongst our monied aristocracy.

On this question, obviously, the interests and profits of that wealthy class,—being necessarily augmented most by whatever promotes the highest value of money,—cannot possibly, in this matter, coincide with those of the public.

The proverb, "'Tis an ill wind that blows nobody good," reminds us of a certain Capitalist,

who frankly said,—"We rather like a good Money-panic: we then get something like interest for our money." True, for Capitalists, doubtless. But, for the *public*, very much like the case of the *Doctors*—complaining of the times, and wishing for a "*good*" *Epidemic*.

To learn what the *national* interests really are, it would doubtless be the safer, as it would also be the more beneficent and popular policy for the Government, to be informed and *guided*, rather, by the full and decisive evidence, contained in the Records of the Committees of both Houses of Parliament, on the National Distress, incident to the Money-panic of 1847.

Summary of suggested Remedy.

To conclude: It may safely here be said that, whatever other advantages our suggestion may present, it must be perfectly *harmless* in every point of view: nothing perhaps could be more entirely free from the danger of inflicting injury on any interest whatever, whether national or individual, than would be the practical introduction of the proposed financial remedy. On this important point there should remain no doubt, when it is remembered, that the simple suggestion made, is, that the Bank should proceed gradually to *augment* its store of *bullion*, at such times as this may be in all respects most convenient; and that, while so doing, the Bank should also gradually *withdraw* from the Issue Department its present *securities*, to be thereafter

used as a basis *only* during a drain. Such is the simple and facile modification suggested.

A grave question of Political Economy.

Finally: As a question of *Political Economy*, this subject, though unfortunately too much ignored and put aside, seems indeed to surpass most others in vital and national importance. Of *many* departments of the general industry, an adequate circulating medium,—since its varying supply must control the rate of *profit*,—becomes absolutely the *prime-mover;* whilst it is necessarily fundamental to *all*.

Prospective *profit* is the sole inducement to *invest* capital; of this anticipated profit the *price* obtainable for the industrial production is the proper measure and index; and whatever circumstance may act upon this price, must act equally upon the motive to prosecute the industry, by augmenting or diminishing that motive.

A Money-panic, therefore, must, of necessity, take this despotic position in our Political Economy: It generates inevitably amongst commercial customers, possessing at the time the needful money, the *universal fear* of parting with it. Purchasers in markets consequently become few, and producers necessarily being sellers, as usual, without finding the usual buyers, commodities fall indefinitely in price. Industrial production thus becomes unprofitable, and is, on that account, temporarily or permanently abandoned; the result of so contracting or closing extensive works throughout the country, being the proportionate failure of *employment* and

income to the population at large. Emigration next becomes indispensable; a serious gap in the supply of labour is the result; and this is made inconveniently palpable and often expands into the gravest of social questions, whenever trade returns again to its former activity and prosperity, with a revived demand for such valuable labour, essential indeed to our manufacturing pre-eminence.

The most striking peculiarity of a Money-panic is this fearful *universality* of its operation. It reaches necessarily to every commodity produced by our industry for the market, by suddenly shutting off the customary demand. It causes, by this process, *unnatural* depreciation; robs the national prosperity, by the same means, of its essential *mainspring*, the emoluments, which are the sole stimulants to its industry; and, so long as it prevails, goes directly to undermine the entire fabric of our immense commercial system.*

In Political Economy, there is, therefore, no question which exceeds in importance or extent this vital one, concerning the *money-medium* of Exchange;—nor can there be any public claim upon the attention of the Legislature of a country, of greater moment and urgency than that which relates to the prevention of a *Money-panic*.

* *Vide* Note to page 20.

FINIS.

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TITLE